



CPL

The Kroger Co.

ANNUAL
REPORT
1955



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DIRECTORS EMERITUS

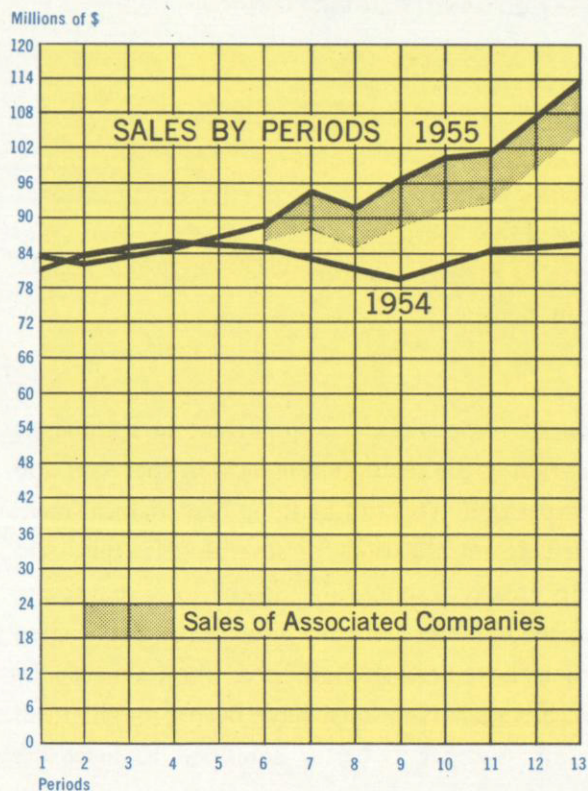
WALTER A. DRAPER

CHARLES M. ROBERTSON

President's Letter

Sales

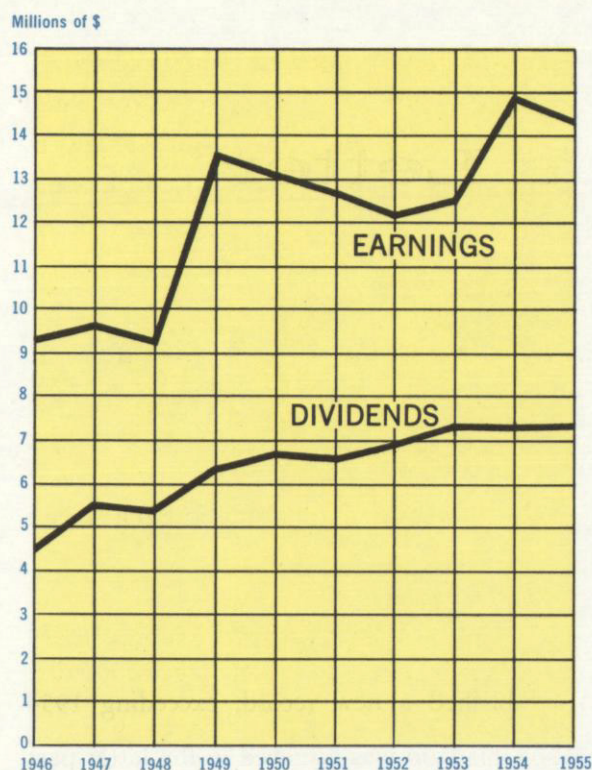
Sales of \$1,219,474,812 for 1955 (52 weeks) established a new record, exceeding 1954 (53 weeks) by \$110,780,644 or 10.0%. Almost all of this gain was achieved in the latter part



of the year, as is shown on the accompanying chart. The percentage of sales gain by quarters over 1954 was 0.5% in the first quarter, 1.1% in the second quarter, 17.3% in the third quarter and 25.7% in the comparable fourth quarter. Average sales per store per week during the last four weeks of 1955 were \$17,800 as compared with \$12,700 for the same weeks of 1954.

Food prices were slightly lower in 1955 than in 1954, so that tonnage sales increased more than dollar sales.

Earnings



The Kroger Co. earned \$14,368,292 in 1955 or \$3.88 per share. This was \$0.16 per share less than the \$4.04 earned in 1954. Before-tax earnings in 1955 exceeded 1954 by \$667,663. However the provision for federal income taxes increased \$1,212,283 due to unfavorable variations in non-taxable income and non-deductible expenses. Earnings in the first and second quarters were adversely affected by the sharp fall in green coffee prices. The impact of these losses was in part reversed at the year-end by LIFO. Earnings in the third and fourth quarters were adversely affected by a strike which closed 52 of our stores in metropolitan St. Louis for a period of nine weeks. Midway in the third quarter the unfavorable earnings trend was reversed. During the last five periods of the year, earnings were on a steadily improving basis.

Accomplishments of 1955

The reversal in trend can be attributed to several factors: the emphasis on organizational decentralization and the placing of greater responsibility at the local level; the expanded store program; the addition of three food chains operating in areas not previously served by Kroger stores and the introduction of Top Value trading stamps.

DECENTRALIZATION

Decentralization of responsibility is important in companies extending over large geographical areas. Competition in the retail field is local in character and decisions must be made rapidly to meet such competition. This can be done best by local management. The company has been working toward decentralization for several years but 1955 saw the streamlining of the organization, placing greater responsibility in the local marketing areas. The General Office group has been reorganized to better assist the branches and associated companies in their operations. Branch organizations have been strengthened. Programs for the development of management men have been accelerated. New men have been brought in at various levels to further strengthen management. Kroger is better equipped to meet the competition ahead.

EXPANDED STORE PROGRAM

Kroger opened 93 new stores in 1955 as compared with 76 in 1954. Major remodels were accomplished during the year in 55 stores as compared with 46 in 1954. The greatest emphasis has been placed on stores ranging from 15,000 to 24,000 square feet of floor space, large parking capacity and annual sales of \$1,250,000 and upwards. The 93 stores opened in 1955 represent 6% of stores operated, but their current aggregate volume represents 10% of current sales.

We intensified our program of closing older, smaller and less efficient stores as new stores were created to replace them. 263 stores were closed during the year. The total number of stores at the year-end, including those acquired, was 1587, a net decline of 91.

The completion of warehouses in Louisville and Toledo improved service to stores in those areas.

MERGERS

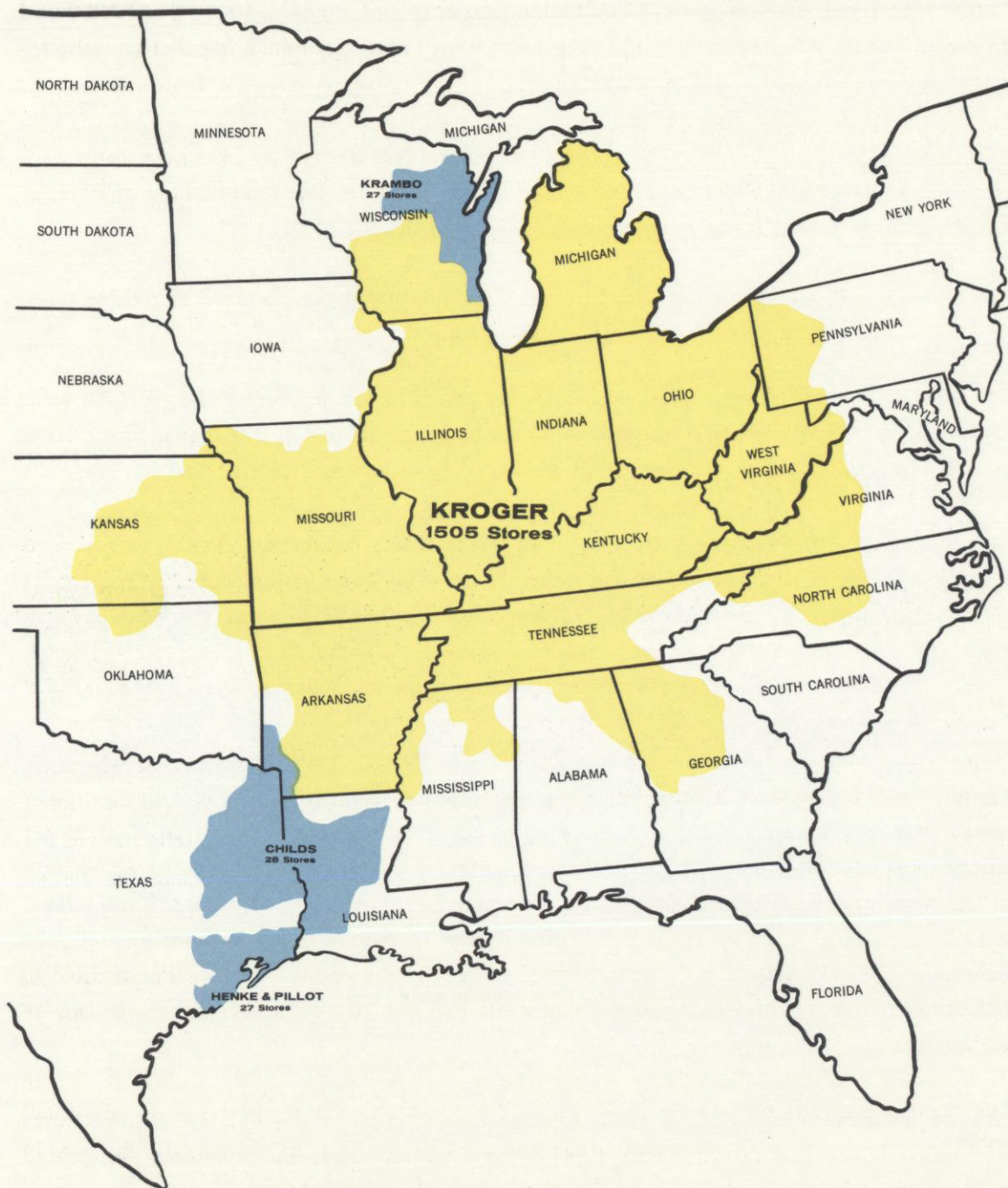
Three supermarket chains were added to Kroger during the year. All were cash transactions. All are being operated without change of name. Capable management exists in each case, supplemented by specialized assistance from Kroger's central staff.

Henke & Pillot, Inc., a chain of 27 stores with headquarters in Houston, Texas, was merged on May 24, 1955. All of the stores are supermarkets with large parking lots. Average sales per store are approximately \$1,800,000 per year. Stores opened in the past two years are currently operating at an average \$2,800,000 annual sales level. These stores are served by a large, modern warehouse, a bakery and a meat processing plant in Houston. The Houston area is one of the fastest growing in the country.

Krambo Food Stores, Inc., a chain of 27 supermarkets serving Milwaukee and Eastern Wisconsin, was added June 16, 1955. Average sales per store are approximately \$1,400,000 per year. Stores opened in the past two years are currently operating at an average \$3,600,000 annual sales level. The stores are served from a warehouse in Appleton, Wisconsin, and a meat processing plant in Fond du Lac, Wisconsin. A new warehouse is under construction near Milwaukee. Krambo has recently gone through an aggressive period of expansion into large, high-volume stores. This expansion is being continued with six additional stores now under construction.

Childs Food Stores, Inc., a chain of 28 supermarkets, was added July 31, 1955. The stores are located in the fast growing East Texas-West Louisiana area. Twenty stores are located in Texas, five in Louisiana, and three in Arkansas. Average sales per store are approxi-

mately \$1,200,000 per year. Stores opened in the past two and a half years are currently operating at an average \$1,700,000 annual sales level. At present the company has a warehouse and headquarters in Jacksonville, Texas. An expansion program is in process which will include construction of a 200,000-square-foot warehouse and headquarters building in Shreveport, Louisiana.



TOP VALUE TRADING STAMPS

Early in the year it became apparent that a vast majority of retail food customers desire trading stamps with their purchases. At that time your company began aggressively to promote the development of a new trading stamp company with seasoned management experienced in both the premium merchandise and stamp business. Our managerial requirements were fully satisfied by Cappel-MacDonald & Company and the Gold Bond Stamp Company. They joined with Kroger and several non-competing food chains to organize Top Value Enterprises, Inc. The aggressive management of the new enterprise has built Top Value to the second largest stamp company in the country in less than nine months. Stamps have been introduced in approximately one thousand Kroger stores. They have been a factor in our improved sales and earnings.

Financial

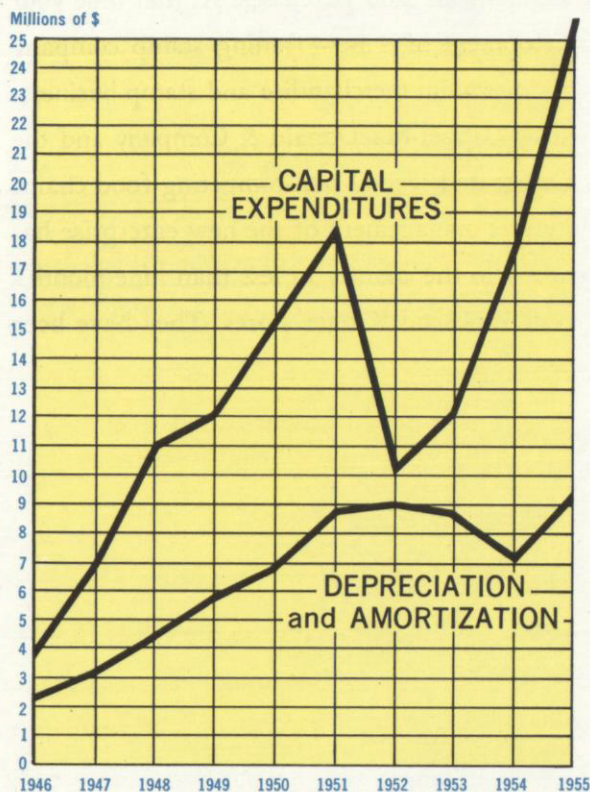
Cash at the year-end was \$40,696,076, up \$6,068,114 from a year ago. Net working capital was \$79,180,095, an increase of \$11,657,729 during the year. Retail inventories at the year-end were \$84,293,267, equal to 26 days' supply. A year ago they were \$71,693,956, equal to 27 days' supply.

In June, the company borrowed \$20,000,000 from banks through the issuance of 3% notes maturing in 1963, with interest adjustable in 1958 to a maximum of 3.25%. An additional \$9,139,770 was raised through the sale-lease financing of six of our modern warehouses erected since World War II. These funds were expended for capital improvements and for the acquisition of associated companies.

The common stockholders' equity in the company was \$119,873,406 at the year-end, equal to \$32.35 per share. This represents an increase of \$7,331,102 during the year and an increase of \$64,387,585 over the past ten years.

The regular quarterly dividend of \$0.45 per share was paid through the year. An additional \$0.20 per share paid in the fourth quarter brought total dividends to \$2.00, the same as in 1954. A quarterly dividend rate of \$0.50 per share has been established for 1956.

Capital Expenditures



Capital expenditures of the company and its subsidiaries were at an all-time high of \$25,801,634, an increase of 43.6% over the previous year and more than double those of 1953. The breakdown of these expenditures was as follows: for stores \$17,301,631; for warehouses and related equipment \$4,065,450; for transportation equipment \$3,103,303; for manufacturing plants and equipment \$1,115,537 and for office equipment and miscellaneous capital improvements \$215,713. Depreciation and amortization of the company and its subsidiaries were \$9,337,290, an increase of \$2,154,091 over 1954.

Outlook for 1956

STORES Our store program for 1956 contemplates the opening of approximately 160 new stores plus a substantial number of major remodels. Emphasis continues on the larger stores. For the most part new stores will be located in the present areas of Kroger's operation. However, leases have been signed for store locations in the Knoxville, Tennessee, area and in the Birmingham, Alabama, area, in which we have not heretofore been represented.

In October, Kroger purchased a nine-acre vacated baseball park in the heart of Toledo's residential area. This will become the site of a modern shopping center to be developed by Kroger.

WAREHOUSES We are constructing warehouses in Little Rock, Columbus, Milwaukee and Shreveport. Acquisition of new warehouse sites has been undertaken in Detroit, Grand Rapids, Indianapolis, Cleveland and Ft. Wayne. We expect to begin construction of all of these in 1956. The Cincinnati warehouse is to be enlarged to handle increased tonnage.

MANUFACTURING

Plans are being developed for the construction of two large bread and cake bakeries. One will be built in Indianapolis to serve sections of Indiana, Kentucky and Illinois; the other in Detroit to serve sections of Michigan, Ohio and Indiana.

An instant coffee plant will be built in Cincinnati and should be in production before the end of 1956. Use of instant coffee is growing rapidly and now accounts for over a third of coffee sold in Kroger stores. The new plant should give us a profitable entry into this field.

STOCK OPTION PLAN

It is the belief of management and the board of directors that the future earnings of the company can be improved by the proper use of stock options. The 1951 Stock Option Plan expires next month. A proposed new plan is described in the proxy statement and will be submitted for approval at the annual meeting.

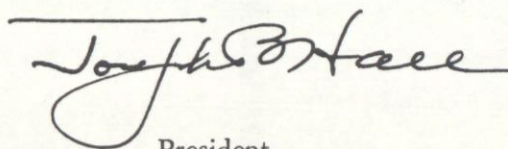
Management responsibility has been decentralized. Greater authority has been placed at the local level. It is advisable for those who can have so much to do with the success of the company to have a large financial stake in the results of their own efforts. Long-term stock options will provide that group a practical opportunity to acquire significant ownership interests in the company. As shareowners, they will have a personal incentive to increase the value of all common shares.

BIG CHAIN

In January, 1956, your company added Big Chain Stores, Incorporated, operating seven stores in Shreveport, Louisiana. Another large Big Chain shopping center store will be opened in the near future. The new Childs warehouse under construction in Shreveport will service the Big Chain stores.

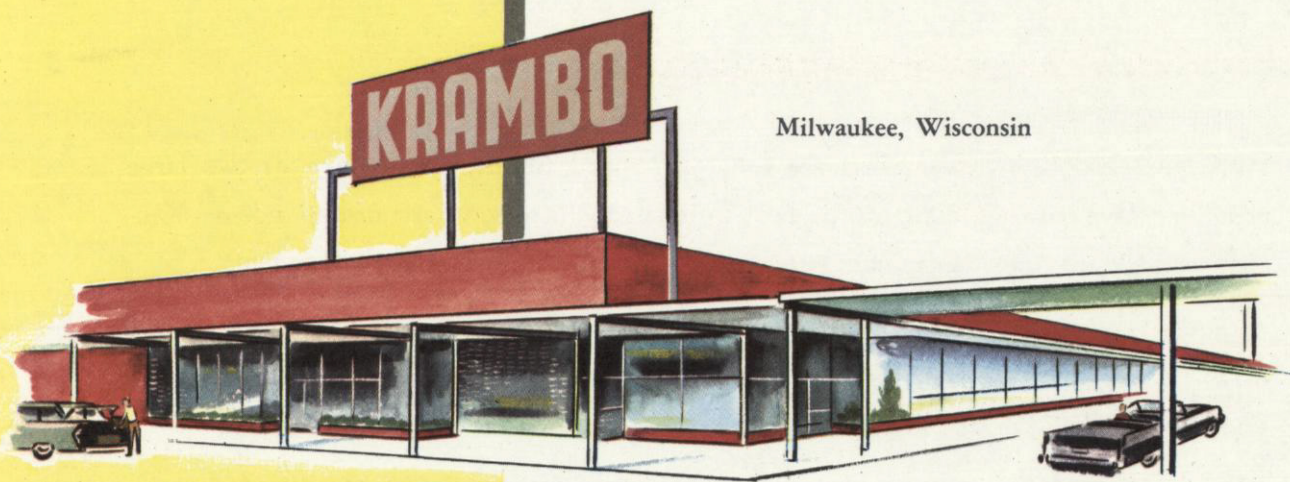
1955 was the year of building for tomorrow. This program will be carried forward in 1956 with increasing intensity. Sales continue to show further gains. Earnings for the first four weeks of the current year are ahead of last year and the outlook appears favorable. Your management looks forward with optimism in 1956.

Respectfully submitted,



President

February 10, 1956



Milwaukee, Wisconsin

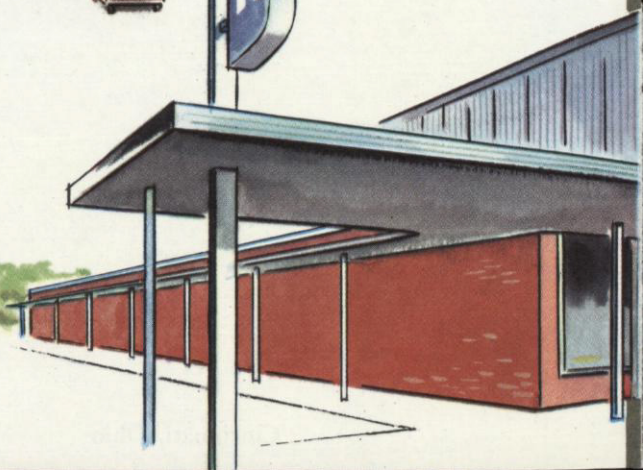


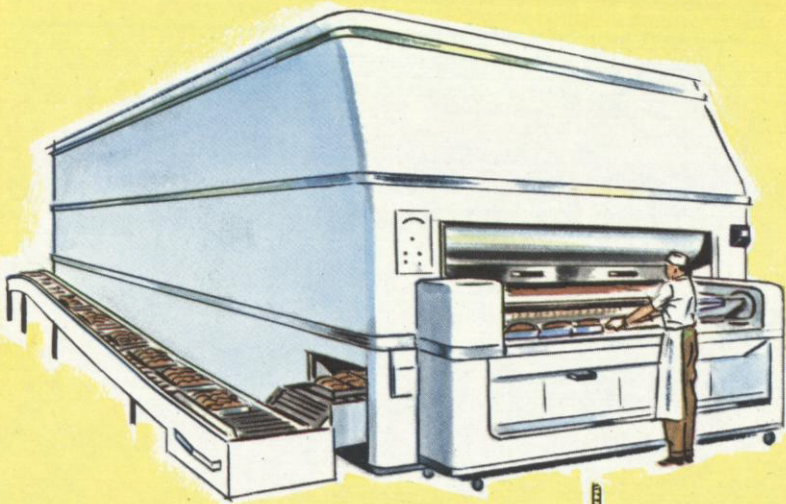
Top Value Stamp redemption store

Building for Tomorrow

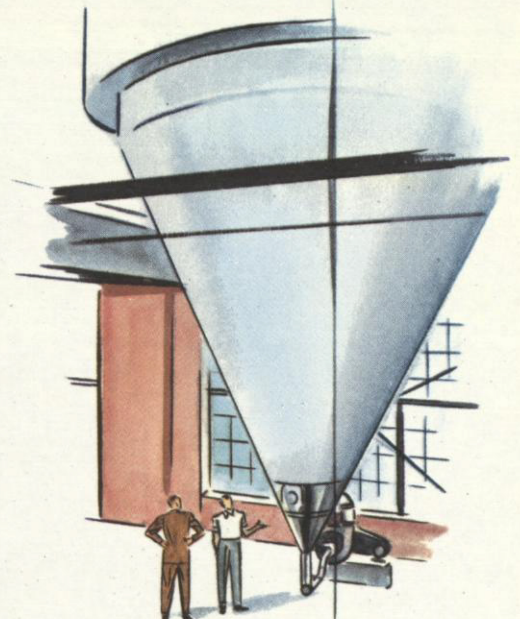


Alexandria, Louisiana

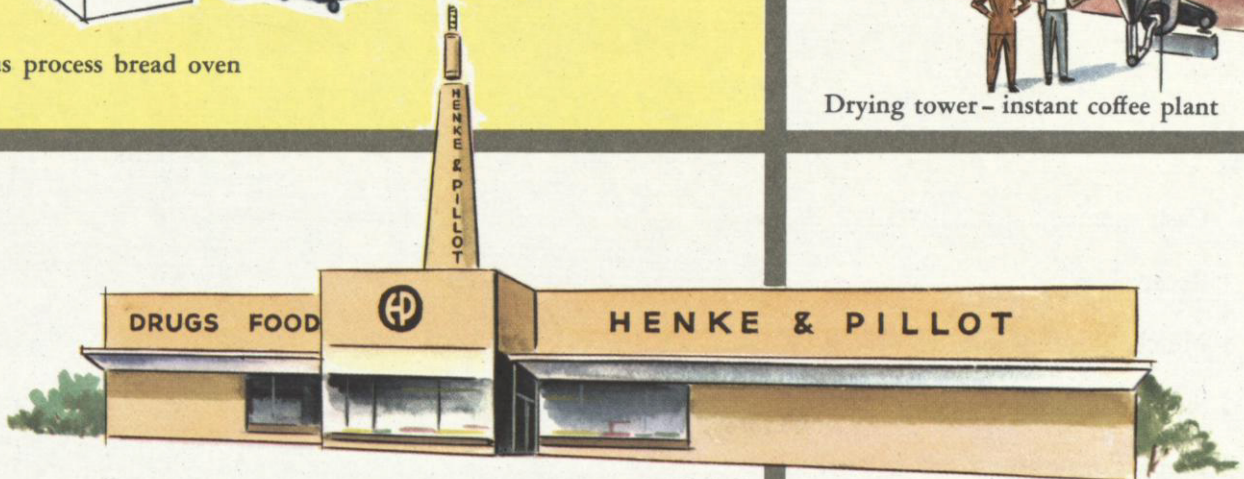




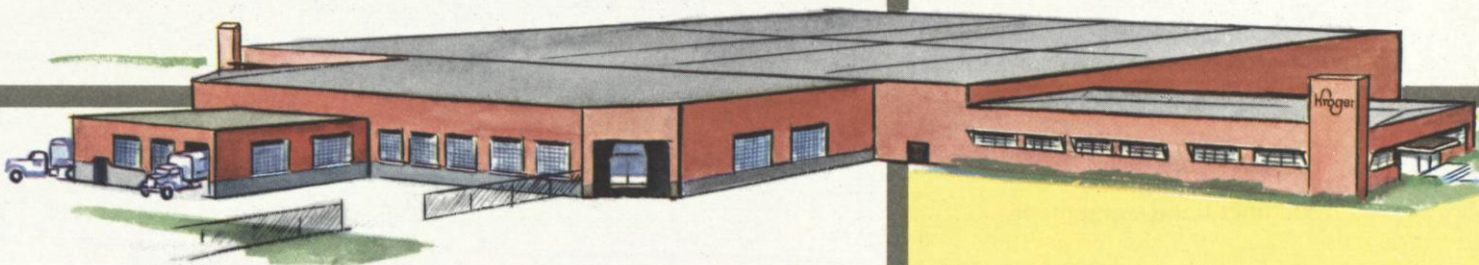
Continuous process bread oven



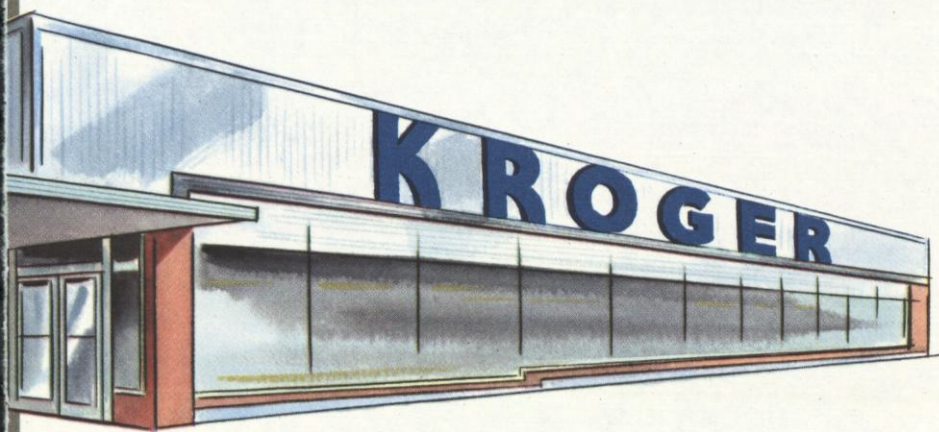
Drying tower - instant coffee plant



Houston, Texas



Warehouse and office Toledo, Ohio



Cincinnati, Ohio

The Kro

Consolidated Balance Sheet —

ASSETS		
	December 31, 1955	January 1, 1955
Cash	\$ 40,696,076	\$ 34,627,962
Receivables	5,785,000	4,177,334
Merchandise inventories (Note 1).....	95,112,775	84,667,841
Store and general supplies.....	6,024,784	3,434,475
Prepaid insurance, rent and taxes.....	<u>1,781,933</u>	<u>1,593,696</u>
TOTAL CURRENT ASSETS.....	149,400,568	128,501,308
Investment in subsidiary insurance company, at cost (Note 2).....	1,776,361	1,776,361
Land	3,600,996	2,569,335
Leaseholds and leasehold improvements, net.....	14,315,399	3,415,090
Buildings	12,992,207	17,194,385
Machinery and equipment.....	100,329,038	79,257,870
Less allowance for depreciation.....	<u>(51,621,052)</u>	<u>(42,861,545)</u>
NET FIXED ASSETS.....	<u>79,616,588</u>	<u>59,575,135</u>
TOTAL ASSETS	\$230,793,517	\$189,852,804

ger Co.

December 31, 1955 and January 1, 1955

LIABILITIES

	December 31, 1955	January 1, 1955
Accounts payable.....	\$ 36,663,729	\$ 30,440,148
Accrued expenses.....	17,245,595	14,848,657
Provision for federal taxes.....	16,311,149	15,690,137

TOTAL CURRENT LIABILITIES.....	70,220,473	60,978,942
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Long-term notes (Note 3).....	34,000,000	14,000,000
Debentures and long-term notes of subsidiaries.....	2,126,290	—
Employees' benefit fund.....	2,288,658	2,288,658
Preferred stock of subsidiaries.....	2,185,000	—
Minority interest in subsidiaries.....	62,690	—

CAPITAL

Preferred capital stock, par \$100:

Outstanding:		
6% Series	27,900	27,900
7% Series	9,100	15,000

Common capital stock, without par value (Note 4):

Authorized: 5,000,000 shares

Outstanding: 1955, 3,705,140 shares; 1954, 3,693,839 shares.....	34,709,865	34,341,402
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Accumulated earnings (Note 3).....	85,163,541	78,200,902
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TOTAL CAPITAL.....	119,910,406	112,585,204
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TOTAL LIABILITIES & CAPITAL.....	\$230,793,517	\$189,852,804
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Consolidated Statement of Income

Years Ended December 31, 1955 and January 1, 1955

	1955	1954
Sales	\$1,219,474,812	\$1,108,694,168
Cost of sales.....	1,011,309,283	923,625,793
Operating and general expenses.....	180,170,954	157,741,463
Total.....	1,191,480,237	1,081,367,256
Income before federal taxes on income.....	27,994,575	27,326,912
Federal taxes on income.....	13,626,283	12,414,000
Net income.....	\$ 14,368,292	\$ 14,912,912

Consolidated Statement of Accumulated Earnings

Year Ended December 31, 1955

Accumulated earnings—January 1, 1955.....	\$ 78,200,902
Total net income for 1955.....	\$14,368,292
Dividends declared in 1955.....	7,405,653
Accumulated earnings—December 31, 1955.....	\$ 85,163,541

Notes to Financial Statements

1. Merchandise inventories are valued in part on the LIFO basis and in part at the lower of cost or market.
2. The investment in Manufacturers & Merchants Indemnity Company, an insurance company licensed under the laws of the State of Ohio, represents the entire voting preferred stock and 40% of the common capital stock of that company, and is carried on the books at cost. At December 31, 1955, the company's equity in the net assets of the insurance company determined in accordance with the rules of the Commissioner of Insurance of the State of Ohio, amounted to \$1,549,249. Total assets of the insurance company so determined amounted to \$7,220,831 consisting principally of cash, U. S. Government securities and other marketable securities aggregating \$6,591,455. Net operating profit for the year 1955, including non-recurring gain on sale of assets, was \$116,647.
3. Notes for \$14,000,000 bearing interest at 3.1% mature October 1, 1971. Annual prepayments of \$700,000 without premium, are required beginning October 1, 1961. Any of the notes may be prepaid at the option of the company at premiums provided in the loan agreement. Payments of cash dividends are limited to earnings subsequent to December 31, 1955, plus \$43,068,541 of accumulated earnings existing on that date. Notes for \$20,000,000 were issued under a revolving credit agreement dated June 1, 1955. Individual notes mature in 90 days but are renewable up to June 1, 1958 at 3% interest. They are convertible on that date into 5-year notes bearing interest at a rate $\frac{1}{8}$ of 1% above the then prime rate, but not to be less than 3% nor more than 3.25%.
4. Options granted to 301 officers and executives for the purchase of 166,011 shares of Kroger Common Stock were in force at December 31, 1955. The option price of 97,768 shares was \$32.25. Option prices of the balance of 68,243 shares range from \$33.25 to \$42.25. Options for 20,138 shares were exercisable at December 31, 1955. Options for 11,301 shares were exercised during 1955 at prices ranging from \$32.25 to \$39.25.

Report of Certified Public Accountants

To The Board of Directors,
The Kroger Co.
Cincinnati, Ohio

We have examined the consolidated balance sheet of The Kroger Co. and subsidiary companies as of December 31, 1955, and the related consolidated statements of income and accumulated earnings for the fiscal year (fifty-two weeks) then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statements of income and accumulated earnings present fairly the consolidated financial position of The Kroger Co. and subsidiary companies at December 31, 1955, and the results of their operations for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding fiscal year.

Lybrand, Ross Bros. & Montgomery
Certified Public Accountants

Cincinnati, Ohio
February 10, 1956

Financial and Operating Statistics

	1955	1954	1953	1952	1945
SALES	\$1,219,474,812	\$1,108,694,168	\$1,058,608,651	\$1,051,849,935	\$463,465,566
NET INCOME BEFORE TAXES..\$	27,994,575	\$ 27,326,912	\$ 29,309,664	\$ 27,935,387	\$ 15,875,826
NET INCOME.....	14,368,292	14,912,912	12,528,664	12,110,087	5,643,418
NET INCOME PER SHARE.....	\$3.88	\$4.04	\$3.40	\$3.30	\$1.53
DIVIDENDS PER SHARE.....	\$2.00	\$2.00	\$2.00	\$1.90	\$1.00
NUMBER OF SHAREHOLDERS	26,596	25,501	25,914	26,088	27,294
NUMBER OF STORES.....	1,587	1,678	1,810	1,891	2,730
NUMBER OF EMPLOYEES.....	31,022	30,320	29,105	28,396	19,389
CASH	\$ 40,696,076	\$ 34,627,962	\$ 41,792,719	\$ 40,078,625	\$ 19,737,033
MERCHANDISE INVENTORIES	95,112,775	84,667,841	81,196,446	77,143,349	42,867,852
NET WORKING CAPITAL.....	79,180,095	67,522,366	68,707,575	65,884,745	39,335,661
NET FIXED ASSETS.....	79,616,588	59,575,135	50,451,043	47,843,817	14,544,135
ACCUMULATED EARNINGS\$	85,163,541	\$ 78,200,902	\$ 70,670,362	\$ 65,501,630	\$ 21,814,086
NET WORTH.....	119,910,406	112,585,204	104,646,321	99,216,265	55,581,821
NET WORTH PER SHARE.....	\$32.35	\$30.47	\$28.41	\$27.00	\$15.11

